

STATE OF CALIFORNIA



CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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To: Tax Credit Users

From: Lynn Wehrli
Executive Director, TCAC

Subject: Request For Comment on Cost Increases and Additional Funding for Projects
With Prior Year Allocations

Date: July 29, 2005

TCAC has received a request for additional awards of 2005 tax credits for several projects that have received prior year allocations. The projects' owner has made a case that such allocations are essential to cover extreme materials cost increases for his five 2003 projects in Los Angeles. The owner has submitted information indicating cost increases in the range of 20% to 40% on these projects, which must be completed this year. The Committee has heard public comment, both for and against, in several meetings.

Staff and other constituencies have expressed the following concerns:

Additional allocations set precedents for increasing tax credits at completion, which has never been allowed before for 9% projects; equity prices have increased considerably over the last few years and interest rates remain low, which should help offset higher development costs; other 2003 projects have continued through their development process successfully and obtained other sources when necessary without requesting additional credits; an existing reapplication process is available for this purpose which the owner has elected not to use; tax credit increases after application encourage applicants to underestimate costs at application, thereby improving their projects' tiebreaker performance; such allocations use up 2005 tax credits, which is not fair to current applicants. It increases competition and also reduces overall production of affordable housing by using more scarce resources without generating new affordable units.

The Committee members have asked for additional public comment on this matter, and encourage input from all interested parties so that they can make a well informed decision on the matter. Please direct comments to the Executive Director at TCAC's offices. We appreciate your thoughts and look forward to your response.